

**SECTION 32 SEWER AUTHORITY
WAKEFIELD, MICHIGAN
AUDITED FINANCIAL STATEMENTS**

March 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

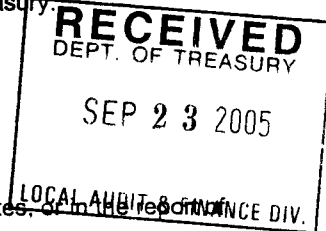
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Section 32 Sewer Authority	County Gogebic
Audit Date 3/31/2005	Opinion Date 7/6/2005	Date Accountant Report Submitted to State: 9/20/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name) Roger J. Kolehmainen PC			
Street Address 1445 East US 2		City Ironwood	State MI
Accountant Signature 		ZIP 49938	Date 9/20/05

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Roger J. Kolehmainen CPA PC

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INDEPENDENT AUDITOR'S REPORT

Chairman and Members of the Board

Section 32 Sewer Authority

Wakefield, Michigan

We have audited the accompanying basic financial statements of Section 32 Sewer Authority (the Authority), as of and for the year ended March 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's. Our responsibility is to express an opinion on these statements based on our audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit provides a reasonable basis in our opinion.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Section 32 Sewer Authority as of March 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – For State and Local Governments* as of April 1, 2004.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting and Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Ironwood, MI

July 6, 2005


Roger J. Kolehmainen PC
Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS
SECTION 32 SEWER AUTHORITY

Year ended March 31, 2005

Management's Discussion and Analysis

This section of the Section 32 Sewer Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended March 31, 2005. It is to be read in conjunction with the Authority's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Government* and is intended to provide the financial results for the fiscal year ending March 31, 2005. This is the first year of GASB 34 implementation. As a result the financial report is presented very differently than previous years. Because this is the first year of implementation of GASB Statement No. 34, prior-year data is not available.

Financial Statements

The statement of net assets shows the Authority's assets and liabilities. This statement measures the financial strength of the Authority; the greater the net asset figure, the healthier the Authority generally is. This shows if the Authority will be able to fund their current obligations and shows what they have available for future use.

The statement of activities shows the current year change in net assets on a revenue less expenditure basis. It generally shows the operating results for a given year of the Authority. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Authority. Any deficiency of revenues over expenditures results in a deficit for the year that in turn reduces the net assets (or increases a deficit) of the Authority.

Proprietary Funds

Proprietary Funds provide services for which the Authority charges customers a fee, like a business-type of activity. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Notes to Financial Statements

Notes to the financial statements are included in the financial statements, and provide additional information that is essential for a full understanding of the data provide in the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SECTION 32 SEWER AUTHORITY

Financial Statements-Condensed Financial Information

Statement of Net Assets

The following table shows the March 31, 2005, condensed statement of net assets with a detailed analysis of the statement below.

	Business-Type <u>Activities</u>
ASSETS	
Current Assets:	
Cash and other assets	\$79,281
Other assets	2,397
Non-current Assets	
Capital Assets, net	336,465
TOTAL ASSETS	<u>\$418,143</u>
 LIABILITIES	
Current Liabilities	<u>\$633</u>
TOTAL LIABILITIES	\$633
 NET ASSETS	
Investment in capital assets net of related debt	\$336,465
Restricted	
Unrestricted	81,045
Total Net Assets	<u>\$417,510</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$418,143</u>

For business-type activities, net assets decreased by \$9,909 during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SECTION 32 SEWER AUTHORITY

Results of Operations

The following represents the changes in net assets for business-type activities for the year ended March 31, 2005.

	Business-Type <u>Activities</u>
REVENUES	
Program Revenue:	
Charges for services	\$21,980
Interest Income	1,106
TOTAL REVENUES	<u>\$23,086</u>
EXPENSES:	
Sewer Expenses	\$32,905
Increase (Decrease) in Net Assets	<u>(\$9,909)</u>
Net Assets, Beginning of Year	427,419
Net Assets, End of Year	<u><u>\$417,510</u></u>

Proprietary Fund

Unrestricted net assets of the Sewer Fund as of March 31, 2005 were \$81,045.

Other Economic Factors and Next Years Budget

Economic Factors

Currently, the sewer rates have remained relatively stable over the past several years. Since all underlying debt has been retired, the Authority continues to provide essential services at a reasonable cost in supporting a healthy and clean living environment

MANAGEMENT'S DISCUSSION AND ANALYSIS
SECTION 32 SEWER AUTHORITY

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Authority Administrator
Section 32 Sewer Authority
PO Box 47
Wakefield, MI 49968

SECTION 32 SEWER AUTHORITY
STATEMENT OF NET ASSETS

March 31, 2005

ASSETS

CURRENT ASSETS:

Accounts receivable-net	\$79,281	
Prepaid expenses	2,397	
Total Current Assets	<u>\$81,678</u>	

NONCURRENT ASSETS:

Property, plant and equipment	501,512	
Accumulated depreciation	(165,047)	
Total Non-Current Assets	<u>336,465</u>	

TOTAL ASSETS	<u>\$418,143</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$117	
Accrued wages/taxes	468	
Deferred revenues	48	
Total Current Liabilities	<u>\$633</u>	

NET ASSETS:

Investment in capital assets, net of related debt	336,465	
Unreserved	81,045	
TOTAL NET ASSETS	<u>\$417,510</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$418,143</u>	

The accompanying notes are an integral part of the financial statements.

SECTION 32 SEWER AUTHORITY
STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
Year ended March 31, 2005

Business type Activities - Enterprise Funds

	<u>Total</u>
Operating revenues:	
Charges for services	\$8,004
Major customer	13,976
Total Operating Revenues	<u>\$21,980</u>
Operating expenses:	
Wages and taxes	\$2,322
Contractual cost	9,039
Provision for depreciation	9,495
Operating supplies/maintenance	4,770
Utilities	2,009
Insurance	3,363
Office supplies	195
Transportation	145
Professional fees	1,567
Total Operating Expenses	<u>\$32,905</u>
Operating income (loss)	<u>(\$10,925)</u>
Non-operating revenues (expenses)	
Interest income	1,016
Net Income (loss)	<u>(9,909)</u>
Net Assets - March 31, 2004	<u>427,419</u>
NET ASSETS – MARCH 31, 2005	<u><u>\$417,510</u></u>

The accompanying notes are an integral part of the financial statements.

SECTION 32 SEWER AUTHORITY
STATEMENT OF CASH FLOWS

Year ended March 31, 2005

	<u>Totals</u>
Cash flows from operating activities:	
Income from operations	(\$10,925)
Adjustments to reconcile income from operations to net cash Provided by operating activities:	
Depreciation	9,495
(Increase) decrease in:	
Prepaid expenses	340
Increase (decrease) in:	
Accounts payable	73
Accrued payroll/taxes	32
Deferred revenues	(344)
Total adjustments	<u>9,596</u>
Net Cash Provided by Operating Activities	(\$1,329)
Cash flows from investment activities:	
Interest income	<u>\$1,016</u>
Net increase (decrease) in cash and cash equivalents	(\$313)
Cash and Cash Equivalents, March 31, 2004	<u>79,594</u>
Cash and Cash Equivalents, March 31, 2005	<u>\$79,281</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Authority was incorporated May 19, 1984 to acquire, own, improve, enlarge, extend and operate a sewage disposal system in accordance with Act 233, Public Acts of Michigan, 1955, as amended. The Authority is governed by a Board of Trustees, an independent joint board comprised of members from the two constituent municipalities, Township of Wakefield, Michigan and Gogebic County, Michigan, participating in the sewage disposal system.

General Statement

The Authority complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the fund financial statements for the proprietary funds. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 34 provides the Authority the option of electing to apply FASB pronouncements issued after November 30, 1989. The Authority has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended March 31, 2005, the Authority implemented the new financial reporting requirement of GASB Statement No. 34. As a result, an entirely new financial presentation format has been implemented.

Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Local Unit (primary government). The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on these criteria, the Authority has no component units.

Basis of Presentation

The Statement of Net Assets and Statement of Activities display information about the reporting as a whole. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

SECTION 32 SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

PROPRIETARY FUND

Enterprise Fund- Enterprise Fund report operations that provide services, which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes. The funds are used to account for utility operations in a manner similar to private business enterprises. The intent of the Township is to recover operating expenses, including depreciation, through user charges.

Measurement focus

On the Statement of Net Assets and the Statement of Activities, business-like activities are presented using the economic resources measurement focus as defined below.

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used.

ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the Township. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Receivables

Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Credit is granted to all customers, who consist of one major customer (64% - ski hill operations) and approximately thirty individuals (36%) who own properties in the vicinity of the ski hill. Uncollectible accounts can be levied against customer's real property.

SECTION 32 SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Inventories

Inventories of Proprietary Fund are considered immaterial and were not taken at year end.

Financial Statements

Depreciation of exhaustible fixed assets used by proprietary funds is charged as an expense against operations, and accumulated depreciation is reported on the proprietary funds' statement of net assets. Depreciation has been provided over the useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Utility Plant	40 Years
Buildings	30 Years
Equipment	5-7 Years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH

Statutes authorize the Township to deposit cash in financial institutions covered by federal depository insurance and to invest in obligations of the United States Treasury, agencies and instrumentalities; commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services: United States

SECTION 32 SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

government or agency obligation repurchases agreements; bankers' acceptances of United States banks; certain mutual funds and certain common stocks. All accounts are in the name of the Authority and the Authority holds certificates of deposit. All cash and certificates of deposits are deposited in financial institutions insured by federal depository insurance. All deposits were covered by insurance and are stated at cost, which is approximately the fair market value.

NOTE C - CAPITAL ASSETS

A summary of proprietary fund type property, plant and equipment at March 31, 2005 follows:

Business-Type Activities	Balance at March 31,			Balance at March 31,
	2004	Additions	Deletions	2005
Capital Assets not Depreciated				
Land and land improvements	\$128,026	\$	\$	\$128,026
Capital Assets being Depreciated				
Lagoon	221,423			221,423
Sewage station	139,248			139,248
Building and equipment	12,816			12,816
Subtotals	\$373,487	\$	\$	\$373,487
Less Accumulated Depreciation for Equipment and Utility plant	(155,553)	(9,495)		(165,048)
Net Capital Assets Being Depreciated	\$217,934			\$208,439
Governmental Activities Capital	\$345,960	(\$9,495)	\$	\$336,465
Total Capital Assets-Net of Depreciation				

Depreciation is computed using the straight-line method.

NOTE D - ACCOUNTS PAYABLE

The Proprietary Fund account payable balances were for normal expenditures at year-end.

SECTION 32 SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE E – CONTINGENCIES

The Court's trustee is investigating an alleged overpayment of \$42,000 by a former customer in bankruptcy court. The Authority has retained counsel in defending its actions and believes the claims are substantially without merit. The final outcome of such claim cannot be readily determined and no loss contingency has been recognized in the financial statements.

NOTE F - RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has obtained coverage from commercial insurance companies. The Township has comprehensive general liability coverage of \$1,000,000 per occurrence and a \$3,000,000 in aggregate.

All risk management activities are accounted for in the Enterprise Fund of the Authority. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonable estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Authority as of March 31, 2005, will not materially affect the financial condition of the Authority. Therefore, the financial statements contain no provisions for estimated claims. Settled claims from these risks have not exceeded commercial coverage in any of the past five years.

Roger J. Kolehmainen, PC
Certified Public Accountant
1445 East Cloverland Drive
Ironwood, MI 49938

INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROLS

Chairman and Members of the Board of Trustees
Section 32 Sewer Authority
Wakefield, Michigan

We have audited the financial statements of Section 32 Sewer Authority as of March 31, 2005, and have issued our report thereon dated July 6, 2005.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing the audit of the financial statements of Section 32 Sewer Authority for the year ended March 31, 2005, we considered the internal control structure in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, such study and evaluation disclosed the following condition that we believe to be a material weakness for which management believes corrective action is not practicable in the circumstances. Within the present plan of organization of the Authority there is an inadequate control over cash transactions caused by an inadequate segregation of duties which is due to the limited number of office personnel employed.

This report is intended solely for the use of Board of Trustees and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Board of Trustees, is a matter of public record.


Certified Public Accountant

July 6, 2005